

**Escrow Agreement for  
Working Capital**

Office of Housing

**Escrow Agreement for  
Working Capital****Section 232**

U.S. Department of Housing

and Urban Development

**U.S. Department of Housing  
and Urban Development**

Office of Healthcare Programs

OMB Approval No. 0000-0000

(Exp. 00/00/00)

OMB Approval No. 9999-9999

(exp. mm/dd/yyyy)

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**Warning:** HUD will prosecute false claims and statements. Conviction may result in criminal and/or civil penalties. (18 U.S.C. 1001, 1010, 1012; 31 U.S.C. 3729, 3802)

**This ESCROW AGREEMENT FOR WORKING CAPITAL (Agreement)** made this \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_, by and between

\_\_\_\_\_, (**Lender**), whose principal address is \_\_\_\_\_, and

\_\_\_\_\_, (**Borrower**), whose principal address is \_\_\_\_\_, [and if applicable, \_\_\_\_\_ (**Depository**

**Institution**), whose principal address is \_\_\_\_\_

\_\_\_\_\_, in connection with HUD Project No. \_\_\_\_\_, located in the City/County of \_\_\_\_\_, State of \_\_\_\_\_, which Project [has been, is being, or will be] [constructed, rehabilitated, purchased or refinanced] from the proceeds of a Loan insured by HUD and made by Lender. (The definition of any capitalized term or word used herein can be found in this Escrow Agreement for Working Capital, the Regulatory Agreement between Borrower and HUD, the Note, and/or the Security Instrument, except that the term **Program Obligations** means (1) all applicable statutes and any regulations issued by the Secretary pursuant thereto that apply to the Project, including all amendments to such statutes and regulations, as they become effective, except that changes subject to notice and comment rulemaking shall become effective only upon completion of the rulemaking process, and (2) all current requirements in HUD handbooks and guides, notices, and mortgagee letters that apply to the Project, and all future updates, changes and amendments thereto, as they become effective, except that changes subject to notice and comment rulemaking shall become effective only upon completion of the rulemaking process, and provided that such future updates, changes and amendments shall be applicable to the Project only to the extent that they interpret,

clarify and implement terms in this Agreement rather than add or delete provisions from such document. Handbooks, guides, notices, and mortgagee letters are available on HUD's official website: (<http://www.hud.gov/offices/adm/hudclips/index.cfm> or a successor location to that site)).

#### RECITALS:

A. HUD has issued a Firm Commitment to insure said Loan pursuant to § \_\_\_\_\_ of the National Housing Act, as amended, and Program Obligations, on which mortgage insurance Borrower is relying for financing of the Project.

B. The Firm Commitment is conditioned upon a working capital escrow being established and funded as indicated below. This requirement applies to both the profit-motivated and the not-for-profit Borrower.

#### AGREEMENTS:

In consideration of the mutual promises and undertakings contained herein, and for the purpose of inducing the Lender to make and HUD to insure said Loan, the parties acknowledge and agree as follows:

1. At or before initial endorsement of the Note by HUD for mortgage insurance, Borrower shall deposit, or cause to be deposited with Lender or subject to the control and order of Lender with a depository institution satisfactory to Lender in accordance with Program Obligations, the sum of \$ \_\_\_\_\_ (**Escrow**).

2. It is agreed that the Lender at all times shall control the Escrow. In the event the Project consists of new construction and the Firm Commitment so requires, the Escrow shall be split between a **Working Capital Amount** and a **Construction Contingency Amount** in accordance with Program Obligations; in situations other than new construction the Escrow shall consist solely of a **Working Capital Amount**. The Escrow shall take the form of [*specify as applicable*]:

☐ cash, and/or

☐ one or more unconditional, irrevocable letter(s) of credit issued to Lender by a banking institution, attached hereto as Exhibit "A". The rating of the issuing banking institution and the duration of such letter(s) of credit shall comply with Program Obligations. The letter(s) of credit is attached for informational purposes only. It is expressly agreed and understood that HUD assumes no responsibility for reviewing the letter(s) of credit for sufficiency or enforceability.

3. It is understood that the funds in the Escrow may be released or allocated for the purposes indicated below and for no other purpose without the prior written approval of HUD.

a. With respect to the Working Capital Amount:

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- (i) the cost of furniture, fixtures, and equipment for the Project that are not paid from Loan proceeds;
  - (ii) the cost of marketing and leasing up the Project;
  - (iii) for accruals during the course of construction, for interest, mortgage insurance premiums, taxes, ground rents, property insurance premiums and assessments, when funds available for these purposes under the Building Loan Agreement have been exhausted, and also for allocation to such accruals after completion of construction.
- b. With respect to the Construction Contingency Amount (if applicable):
- (i) cost overruns;
  - (ii) HUD approved change orders.

4. Any unused balance remaining in the Escrow attributable to the Working Capital Amount will be released at Borrower's request and returned to Borrower at the later of twelve (12) months [\_\_\_\_ **{insert different number of months if required by Program Obligations}**] after final endorsement or when the Project has demonstrated to HUD's satisfaction that the Project has achieved Break-Even Occupancy for each month of six (6) consecutive months [\_\_\_\_ **{insert different number of months if required by Program Obligations}**]. Break-Even Occupancy is defined as 1.0 debt service coverage [\_\_\_\_ **{insert different debt service coverage if required by Program Obligations}**], based on all sources of Project income including ancillary income. Any unused balance remaining in the Escrow attributable to the Construction Contingency Amount (if applicable) will be released at Borrower's request and returned to Borrower at final endorsement.

5. The Escrow, when in the form of cash, shall be held by Lender or a depository institution satisfactory to the Lender and in accordance with Program Obligations. Lender may, at any time, for any reason or no reason, draw upon any letter of credit included in the Escrow and convert the same to cash, which cash shall then be held and disbursed pursuant to the terms of this Agreement. Fees charged by Lender and any interest earned on the Escrow shall be governed by Program Obligations.

6. The Escrow may, at HUD's direction, be subject to immediate application to the Indebtedness if an Event of Default by Borrower occurs at any time.

Each signatory below hereby certifies that each of their statements and representations contained in this Agreement and all their supporting documentation thereto are true, accurate, and complete. This Agreement has been made, presented, and delivered for the purpose of influencing an official action of HUD in insuring the Loan, and may be relied upon by HUD as a true statement of the facts contained therein.

IN WITNESS WHEREOF, the parties have duly executed this Escrow Agreement for Working Capital as of the day and year first above written.

BORROWER:

\_\_\_\_\_

By \_\_\_\_\_

\_\_\_\_\_  
Print Name and Title

DEPOSITORY INSTITUTION:

\_\_\_\_\_

By \_\_\_\_\_

\_\_\_\_\_  
Print Name and Title

LENDER:

\_\_\_\_\_

By \_\_\_\_\_

\_\_\_\_\_  
Print Name and Title

Attachment: Exhibit "A"

***Warning:***

***~~Any person who knowingly presents a false, fictitious, or fraudulent statement or claim in a matter within the jurisdiction of the U.S. Department of Housing and Urban Development is subject to criminal penalties, civil liability, and administrative sanctions.~~***

EXHIBIT "A"

## Form of Letter of Credit